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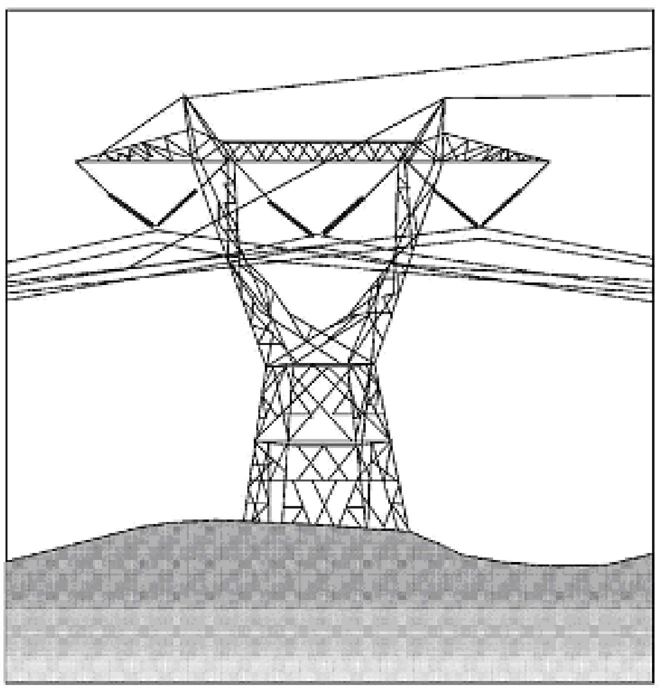
2006 FINAL TRANSMISSION PROPOSAL

ADMINISTRATOR'S RECORD OF DECISION

TR-06-A-01



JUNE 2005

BONNEVILLE POWER ADMINISTRATION
TRANSMISSION BUSINESS LINE

2006 FINAL TRANSMISSION PROPOSAL

ADMINISTRATOR'S RECORD OF DECISION

TR-06-A-01

June 2005

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1.0 PROCEDURAL HISTORY

1.1 Introduction

This Record of Decision (ROD) contains the decisions of the Administrator of the Bonneville Power Administration (BPA) with respect to the adoption of transmission and ancillary services rates for the two-year rate period beginning October 1, 2005, and ending September 30, 2007 (fiscal years (FY) 2006-2007) (2006 Final Transmission and Ancillary Services Rate Proposal). These decisions are based on the record compiled in this rate proceeding. The transmission and ancillary services rates adopted in this ROD are the rates proposed as a result of a comprehensive settlement agreement between BPA's Transmission Business Line (BPA-TBL) and a diverse group of transmission customers, including BPA's Power Business Line (BPA-PBL), regional investor-owned utilities, partial and full requirements customers of the BPA-PBL, Direct Service Industrial (DSI) customers, and merchant generators. The decisions in this ROD to adopt the rates and charges proposed by the settlement agreement are not intended to create or imply any factual, legal, procedural or substantive precedent, or to create agreement to any underlying principle or methodology.

1.2 Procedural History Of The Rate Proceeding

BPA's 2006 Final Transmission and Ancillary Services Rate Proposal was preceded by several public processes that together formed the basis for the final transmission and ancillary services rates adopted herein. These processes are described below.

1.2.1 Other Proceedings

1.2.1.1 Programs in Review Meetings and Workshops

In spring and summer 2004, TBL provided opportunities for public participation and input on TBL program cost levels through the Programs In Review (PIR) public process. PIR opened on May 3, 2004, with a widespread notification by mail to TBL customers and interested parties of meeting dates and topics. Notices were also published on TBL's external website. During the PIR process BPA conducted seven public meetings around the region in June and July 2004. At the public meetings, TBL discussed and solicited customer input on future capital investments in the transmission system and proposed expense levels for transmission system development, operation, and maintenance for FY 2006-2007. A total of 147 entities, including customers and other interested parties, attended the regional meetings.

In response to a request from customers, technical workshops were held on August 5, 2004 and August 25, 2004. The August 5th workshop covered BPA's debt management, including the Debt Optimization Program. The August 25th workshop covered TBL's planned capital program and administrative and shared services costs.

These workshops were highly interactive and provided customers the opportunity to receive answers to their detailed questions. The customers submitted additional written questions after the workshops, to which BPA staff responded in writing. TBL also provided informational materials through direct mailings, electronic mailings, and publication on TBL's external website. Meeting and workshop participants provided substantial oral and written comments with regard to BPA's planned transmission capital spending and program expenditures.

The PIR meetings and workshops explored customers' and interested parties' views on: 1) operating and maintaining an aging transmission system; 2) building and maintaining a business framework in a changing energy industry; 3) building a transmission infrastructure to meet load growth, provide stability for existing contracts, ensure transmission system reliability, and integrate new resources; 4) maintaining a skilled and trained workforce; 5) TBL's access to capital; 6) TBL and corporate staffing and related corporate costs; and 7) TBL operating expense increases relative to the rate of inflation.

Customers participating in PIR asked TBL to manage transmission costs to avoid unnecessary rate increases. The PIR process helped re-affirm BPA's goal to be as efficient and cost-effective as possible, while maintaining the program levels required to operate a reliable transmission system and to meet the challenges of a competitive and dynamic marketplace. Final Revenue Requirement Study, TR-06-FS-BPA-01, Appendix B (close-out letter).

TBL accepted written and oral comments on proposed transmission capital spending and expenses through September 15, 2004. On January 21, 2005, I issued a letter providing a detailed summary and discussion of the issues raised during PIR, and my decisions regarding programs and program level expenditures for FY 2006-2007. *Id.* My decisions were reflected in the revenue requirements, including repayment studies, in the TBL rate proposal, and are reflected in this ROD.

1.2.1.2 Rate Case Workshops

In preparation for the 2006 Transmission Rate Case, the TBL held four public workshops for customers and interested parties, on July 15, August 5, August 26, and September 30, 2004, during which TBL presented information about costs, revenue forecasts, transmission products, pricing, and rate design. At the workshops, the customers approached BPA about settlement of the rate case. During October, November, and early December, the TBL met with customers and interested parties to negotiate a settlement of transmission and ancillary service rate levels and resolution of other significant issues. The discussions resulted in the Settlement Agreement, which was offered by TBL on December 6, 2004, signed by customers on or before January 7, 2005, and signed by TBL on January 11, 2005. The Settlement Agreement, which is Appendix A to this ROD, formed the basis of the TBL's proposal. The settlement process is discussed further in sections 1.2.2, 1.2.2.1, and 1.2.2.2 of this ROD.

1.2.1.3 2002 Wholesale Power Rate Case

A number of issues that affect transmission and ancillary service rates have been addressed in BPA's 2002 Power Rate Case. On May 10, 2000, the Administrator established wholesale power rates for the period October 1, 2001, through September 30, 2006. Before the rates went into effect and before the Federal Energy Regulatory Commission (Commission) granted approval of the rates, the Administrator conducted an additional power rate proceeding and issued a supplemental Record of Decision on June 20, 2001. The Commission granted interim approval of the revised rates on September 28, 2001, and final approval on July 21, 2003.

In the Power Rate Case, the Administrator made decisions regarding the following:

- a methodology for functionalizing generation and transmission costs;
- a methodology for functionalizing corporate overhead costs to the business lines;
- costs for generation inputs for ancillary services, including operating reserves, regulating reserve, and reactive power and voltage control from generation resources;
- the generation costs of station service and remedial action schemes;
- the allocation of the costs of generation integration and generator step-up transformers to the business lines;
- costs for the delivery of Federal power over third party transmission systems pursuant to General Transfer Agreements.

These decisions are not being revisited in this ROD. The decisions that were made in the power rate proceeding are incorporated into the final studies and final transmission and ancillary services rates adopted herein for FY 2006. As described more fully in section 2.1 , below, the rates adopted in this ROD for FY 2007 include formula rates that will require cost inputs determined in the 2007 Power Rate Case.

1.2.1.4 NEPA Compliance

BPA has assessed the potential environmental effects of its rate proposal, consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321 *et seq.* The NEPA analysis is conducted separately from the formal rate process. The following is the record of the NEPA analysis applicable to the 2006 Final Transmission and Ancillary Services Rate Proposal.

BPA previously evaluated the environmental impacts of a range of business structure alternatives that included, among other things, various rate designs for BPA's transmission products and services. Business Plan Final Environmental Impact Statement, DOE/EIS-0183, June 1995 (Business Plan EIS). In August 1995, the BPA Administrator issued a Record of Decision (Business Plan ROD) that adopted the Market-Driven alternative from the Business Plan EIS. The Business Plan EIS and Business Plan ROD were prepared to support a number of decisions, including decisions to establish or revise rates for products and services in rate cases in 1995 and thereafter. Business Plan EIS, section 1.4. Before reaching a final decision establishing or revising rates, the BPA Administrator reviews the Business Plan EIS and Business Plan ROD to determine whether the rate proposal falls within the scope of the Market-Driven alternative evaluated in the EIS and adopted in the ROD. *Id.*; Business Plan ROD, section 8. If the rate proposal is found to be within the scope of this alternative, the Administrator may tier his decision for the rate proposal to the Business Plan ROD and issue a "tiered" ROD. Business Plan ROD, section 8. Tiering a ROD to the Business Plan ROD helps BPA delineate decisions clearly, and provides a logical framework for connecting broad programmatic decisions to more specific actions. Business Plan EIS, section 1.4.

I have reviewed the Business Plan EIS and Business Plan ROD and have determined that BPA's 2006 Final Transmission and Ancillary Services Rate Proposal falls within the scope of the Market-Driven alternative evaluated in the Business Plan EIS and adopted in the Business Plan ROD. As discussed in Section 5 of this 2006 Transmission Rate ROD, this rate proposal is a direct application of the Market-Driven alternative, is not expected to result in significantly different environmental impacts from those examined in the Business Plan EIS, and will assist BPA in accomplishing the goals related to the Market-Driven alternative that are identified in the Business Plan ROD. Therefore, the decision to implement this rate proposal is tiered to the Business Plan ROD.

BPA's evaluation under the Business Plan EIS is discussed in more detail in Section 5 of this ROD.

1.2.2 Formal Proceedings

Section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) requires that BPA's wholesale power and transmission rates be established according to certain procedures. 16 U.S.C. § 839e(i). These procedures include, among other things, issuance of a Federal Register Notice announcing the proposed rates; one or more hearings; the opportunity to submit written views, supporting information, data, questions, and arguments; and a decision by the Administrator based on the record. The proceeding is governed by BPA's rules for general rate proceedings, §1010.9 of the *Procedures Governing Bonneville Power Administration Rate Hearings,* 51 Fed. Reg. 7611 (1986) (Procedures). These Procedures implement the statutory section 7(i) requirements. The rate proposal was made by BPA's Transmission Business Line. BPA's Standards of Conduct do not permit preferential access by BPA's Power Business Line to information on BPA's transmission and ancillary services pricing. BPA-PBL therefore was a party to the transmission rate proceeding, with all of the rights and responsibilities of a party in the rate proceeding, including prohibition of *ex parte* communications. *See* Procedures § 1010.7.

Prior to issuance of the Federal Register Notice, TBL held several public workshops on issues concerning the upcoming rate proposal. TBL held a public workshop on July 15, 2004, to discuss proposed schedules for future workshops, the scope of the rate case, and possible issues. Additional workshops were held on August 5, August 25, and September 30, 2005. At the parties' suggestion, TBL and interested parties met to discuss the possibility of settlement. A group of customers who were interested in settlement asked BPA to disclose likely rate levels for the 2006 transmission rates to assist the group in evaluating their ability to develop a settlement proposal. On November 3, 2004, TBL posted a set of preliminary draft 2006 transmission rates on the TBL website in response to the customer group request. TBL and the parties continued to meet often during November and early December to negotiate a proposed settlement of the rate case. The TBL reached agreement with all of the parties that attended the negotiation sessions on a jointly-developed proposed settlement of the rate case, which was incorporated in the Settlement Agreement. In the Settlement Agreement the TBL agreed to submit an Initial Proposal that reflected the agreed terms.

On December 6, 2004, the TBL posted the final Settlement Agreement on TBL's website and e-mailed the agreement to TBL's transmission customers and to customer umbrella organizations. The TBL indicated that it would decide whether to proceed with the Initial Proposal outlined in the Settlement Agreement based on the executed agreements it received by January 7, 2005. It further indicated that it would execute the Settlement Agreement if, based on such executed agreements, it concluded that sufficient consensus supporting the Settlement Agreement existed. Virtually all of the TBL's customers signed the agreement, and on January 11, 2005, the TBL executed the Settlement Agreement.

On January 13, 2005, the TBL sent letters to customers and interested parties notifying them of the commencement of the *ex parte* rule on January 17, 2005, and notified parties to the settlement negotiations by email that TBL had signed the Settlement Agreement.

On February 2, 2005, BPA published a Notice of 2006 Transmission Rate Case, 70 Fed. Reg. 5423 (2005), which described the Settlement Agreement and proposed rates, stated the justification and reasons for the proposal, and listed dates for the hearing. The notice included a schedule that set the prehearing conference and filing BPA's Initial Proposal Direct Case on February 16 and the proposed deadline for filing objections to the Initial Proposal on February 24, 2005. The Notice also set the deadline for filing non-Party written comments as March 16, 2005. No such comments were submitted.

The formal rate proceeding began with a prehearing conference on February 16, 2005. At the prehearing conference, the TBL distributed its Initial Proposal to the parties. As contemplated by the Federal Register Notice, the TBL proposed a limited schedule until it was determined whether anyone that had not signed the Settlement Agreement would file an objection. 70 Fed. Reg. at 5425. The Hearing Officer established the following schedule: February 22—Clarification; February 24—Objections to Initial Proposal Due; March 2—Scheduling Conference; June 20—Record of Decision. He also ordered that any party that wished to engage in clarification must notify the TBL of its intent to do so by 5 p.m. on February 18. Finally, the scheduling order provided that parties waived their rights to challenge the TBL's Initial Proposal if they failed to file a notice of objection to the Initial Proposal by February 24, the date established in the procedural order, TR-06-O-02, which was also the date proposed for such objections in the Federal Register Notice. 70 Fed. Reg. at 5424.

No party asked for clarification of the TBL's witnesses, and clarification was cancelled. In addition, although five rate case parties did not sign the Settlement Agreement, no party filed an objection to the TBL's Initial Proposal, which indicates support for the Settlement Agreement beyond the signatories to the agreement. The Scheduling Conference was held on March 2, 2005. Because no party intended to challenge the TBL's Initial Proposal, no dates were established for filing of testimony by the parties or for cross-examination of the TBL's witnesses. The date for the Record of Decision remained as June 20, 2005.

This Record of Decision, including the proposed 2006 Final Transmission and Ancillary Services rates, will be filed with the Commission. The Commission will review the proposed rates for conformance with statutory standards, and if the rates are confirmed and approved by the Commission, they will go into effect on October 1, 2005, for a 2-year period.

1.2.2.1 Opportunity To Participate In The Settlement Process

As discussed in Section 1.2.2, above, the Northwest Power Act establishes a hearing procedure for the ratemaking process. The TBL's PIR and rate case workshop processes are in addition to the statutorily required hearing procedure. The PIR and workshop processes offered customers and other interested parties the opportunity to discuss program levels proposed by TBL, learn actual and forecasted TBL costs and revenues, and learn what TBL staff was considering proposing in rates for the FY 2006-2007 rate period. Those processes allowed the customers to evaluate whether to pursue settlement to avoid a potentially lengthy and costly rate process. The PIR and rate case workshops were announced to all customers, and information presented at the meetings, or in response to separate customer requests generated as a result of the workshops, was posted on TBL's website. As a result, the customers as a group decided to pursue settlement, and they either attended or were represented in the settlement discussions.

At the settlement negotiations certain parties were regular or frequent attendees and actively participated in negotiating the proposed transmission rates and terms and conditions. Other parties attended the settlement discussions intermittently to comment on issues and areas of direct concern to their interests. Draft settlement agreements were circulated electronically to all parties who participated in the settlement negotiations, and to other parties who asked to receive copies, for review and comment.

1.2.2.2 Opportunity To Comment On The Final Settlement Agreement

As stated in section 1.2.2.1, all interested parties had ample opportunity to participate in the settlement discussions and to comment on or propose terms for the Settlement Agreement. The Settlement Agreement was mailed or emailed to all customers and customer umbrella organizations during the week of December 6, 2004, for their review. In the transmittal letter for the Settlement Agreement, TBL allowed customers one month to review the agreement and decide whether to sign. The transmittal letter also invited customers to contact their TBL Account Executive with any questions. In addition, the February 2, 2005, Federal Register Notice announced a proposed date, February 24, for parties to file objections to the TBL's Initial Proposal, which was based on the Settlement Agreement. That date was confirmed by the Hearing Officer at the prehearing conference on February 16. Clarification was scheduled for February 22 so that parties had an opportunity for discovery before deciding whether to object.

As stated above, no party objected to the Initial Proposal. Therefore, no further formal proceedings were scheduled and the TBL proposed its Initial Proposal as the Final Proposal to establish transmission and ancillary services rates.

1.3 Legal Guidelines Governing Establishment Of Rates

1.3.1 Statutory Guidelines

The Northwest Power Act sets forth various rate directives for BPA to follow in establishing rates. Section 7 of the Act directs the Administrator to establish, and periodically review and revise, rates for the sale and disposition of electric energy and capacity and for the transmission of non-Federal power. 16 U.S.C. § 839 e(a)(l). Rates are to be set to recover, in accordance with sound business principles, the costs associated with the acquisition, conservation, and transmission of electric power, including amortization of the Federal investment in the Federal Columbia River Power System (including irrigation costs required to be repaid by power revenues) over a reasonable period of years. *Id.*

Section 7(a)(2) of the Act sets forth the overall guidelines to be used in establishing rates. Under section 7(a)(2), rates are effective upon confirmation and approval by the Commission upon a finding by the Commission that the rates

- are sufficient to assure repayment of the Federal investment in the Federal Columbia River Power System (FCRPS) over a reasonable number of years after first meeting the Administrator's other costs;
- are based upon the Administrator's total system costs; and
- insofar as transmission rates are concerned, equitably allocate the costs of the Federal transmission system between Federal and non-Federal power utilizing such system.

Section 7 also includes rate directives the Administrator is to use in establishing rates for particular customer classes. Finally, section 7 establishes procedural guidelines to be used when developing rates. These include publication of notice of the proposed rates in the Federal Register, a hearing before a hearing officer, and an opportunity to submit oral and written comments and to refute or rebut other material submitted for the record. 16 U.S.C. § 839e(i). BPA has expanded on these statutory directives by promulgating rules of agency procedure to aid in the conduct of rate hearings. 51 Fed. Reg. 7611 (1986).

In addition to the Northwest Power Act, the Flood Control Act of 1944 (Flood Control Act) and the Federal Columbia River Transmission System Act (Transmission System Act) include various rate directives. 16 U.S.C. §§ 825s and 838. Section 9 of the Transmission System Act provides that rates shall be established: (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles; (2) with regard to the recovery of the cost of producing and transmitting electric power, including amortization of the capital investment allocated to power over a reasonable period of years; and (3) at levels that produce such additional revenues as may be required to pay when due the principal, premiums, discounts, expenses, and interest in connection with bonds issued under the Transmission System Act. 16 U.S.C. § 838g. Section 10 of the Transmission System Act allows for uniform rates and specifies that the costs of the Federal transmission system be equitably allocated between Federal and non-Federal power utilizing the system. 16 U.S.C. § 838h.

The Flood Control Act contains ratemaking requirements similar to those in the Transmission System Act. Section 5 of the Flood Control Act directs that rate schedules should encourage the most widespread use of power at the lowest possible rates to consumers consistent with sound business principles. 16 U.S.C. § 825s. Section 5 also provides that rate schedules should be drawn having regard to the recovery of the cost of producing and transmitting electric energy, including the amortization of the Federal investment over a reasonable number of years.

In addition, section 6 of the Bonneville Project Act (Project Act) requires that the Administrator prepare schedules of rates and charges for electric power sold to purchasers. 16 U.S.C. § 832e. Section 212(i) of the Federal Power Act sets forth additional ratemaking requirements applicable to BPA for transmission rates in connection with transmission service ordered by the Commission. 16 U.S.C. § 824k(i).

1.3.2 The Administrator's Broad Ratemaking Discretion

The Administrator has broad discretion to interpret and implement statutory standards applicable to ratemaking. These standards focus on cost recovery and do not restrict the Administrator to any particular rate design methodology or theory. *See Pacific Power & Light v. Duncan,* 499 F. Supp. 672 (D.C. Or. 1980); *accord City of Santa Clara v. Andrus,* 572 F.2d 660, 668 (9^{th} Cir. 1978) ("widest possible use" standard is so broad as to permit "the exercise of the widest administrative discretion");

Electricities of North Carolina v. Southeastern Power Admin., 114 F.2d 1262, 1266 (4th Cir. 1985).

The United States Court of Appeals for the Ninth Circuit has recognized the Administrator's ratemaking discretion. *Central Lincoln Peoples' Utility District v. Johnson,* 735'F.2d 1101, 1120-29 (9th Cir. 1984) ("Because BPA helped draft and must administer the Northwest Power Act, we give substantial deference to BPA's statutory interpretation"); *PacifiCorp v. F.E.R.C,* 795 F.2d 816, 821 (9th Cir. 1986) ("BPA's interpretation is entitled to great deference and must be upheld unless it is unreasonable"); *Atlantic Richfield Co. v. Bonneville Power Admin.,* 818 F.2d 701, 705 (9th Cir. 1987) (BPA's rate determination upheld as a "reasonable decision in light of economic realities"); *cf. Aluminum Company of America v. Central Lincoln Peoples' Utility District,* 467 U.S. 380, 389 (1984) ("The Administrator's interpretation of the Regional Act is to be given great weight"); *Dep't of Water and Power of the City of Los Angeles v. Bonneville Power Admin.,* 759 F.2d 684, 690 (9th Cir. 1985) ("Insofar as agency action is the result of its interpretation of its organic statutes, the agency's interpretation is to be given great weight").

1.4 Confirmation And Approval Of Rates

BPA's rates become effective upon confirmation and approval by the Commission. 16 U.S.C. §§ 839e(a)(2) and (k). The Commission's review is appellate in nature, based upon the record developed by the Administrator. *United States Dep't of Energy-Bonneville Power Admin.,* 23 F.E.R.C. ¶ 61,157, 61,339 (1980). The Commission may not modify rates proposed by the Administrator, but may only confirm, reject or remand them. *United States Dep't of Energy—Bonneville Power Admin.,* 23 F.E.R.C. ¶ 61,378, 61,801 (1983). The Federal Power Act ratemaking provisions that apply to BPA for Commission-ordered transmission service did not alter this process. H.R. Conf. Rep. No. 102-1018, 102nd Cong., 2d Sess. 389 (1992), *reprinted in* 1992 U.S.C.C.A.N. 2480.

1.4.1 Transmission Rates

As noted above, under the Northwest Power Act the Commission reviews BPA's rates to determine whether they: (1) are sufficient to assure repayment of the Federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs; (2) are based on BPA's total system costs; and (3) as to transmission rates, equitably allocate the cost of the Federal transmission system between Federal and non-Federal power using the system. 16 U.S.C. § 839e(a)(2); *see also, United States Dep't of Energy—Bonneville Power Admin.,* 39 F.E.R.C. 61,078, 61,206 (1987). This limited Commission review permits the Administrator substantial discretion in the design of rates, which is not subject to Commission jurisdiction. *Central Lincoln Peoples' Utility District v. Johnson,* 735 F.2d 1101,1115 (9th Cir. 1984).

Sections 211 and 212(i) of the Federal Power Act authorize the Commission to order transmission providers to provide transmission service upon application by an eligible entity. Section 212(i) of the Federal Power Act contains provisions specifically applicable to the Federal Columbia River Transmission System (FCRTS):

> (1) The Commission shall have authority pursuant to section 824i of this title, section 824j of this title, this section, and section 8241 of this title to (A) order the Administrator of the Bonneville Power Administration to provide transmission service and (B) establish the terms and conditions of such service. In applying such sections to the Federal Columbia River Transmission System, the Commission shall assure that -
>
> (i) the provisions of otherwise applicable Federal laws shall continue in full force and effect and shall continue to be applicable to the system; and
>
> (ii) the rates for the transmission of electric power on the system shall be governed only by such otherwise applicable provisions of law and not by any provision of section 824i of this title, 824j of this title, this section, or section 8241 of this title, except that no rate for the transmission of power on the system shall be unjust, unreasonable, or unduly discriminatory or preferential, as determined by the Commission.

16 U.S.C. § 824k(i)(l)(ii).

The Federal Power Act also authorizes the Commission to establish the terms and conditions of transmission service that it has ordered pursuant to the above authority. 16 U.S.C. § 824k(i)(2)(A). If the Administrator denies an application for transmission service, or if a party seeks access under "terms and conditions different than those offered by the Administrator" and the application is "filed within 60 days of the Administrator's final determination and in accordance with Commission procedure," the Commission may determine whether to grant or deny access and may establish the terms and conditions of the access. If the Administrator has conducted a hearing, the Administrator's hearing record is, with very limited exceptions, the basis for Commission review. 16 U.S.C. § 824k(2)(B).

The Federal Power Act preserved all existing ratemaking standards. In addition, the transmission rates for transmission service ordered by the Commission pursuant to the Federal Power Act must not be unjust and unreasonable or unduly discriminatory or preferential. 16 U.S.C. § 824k(i)(l)(B)(ii) and (ii).

The Joint Explanatory Statement of the Committee of Conference reinforces Congress's intent to leave prior law governing BPA intact. The Conference Report makes clear that, except for adding a new standard for Commission-ordered transmission, amendments to the Federal Power Act did not change the Commission's authority to review BPA's transmission rates:

> Rates for transmission services provided by BPA under an order issued under section 211 are to be established by BPA and reviewed by Commission through the same process and using the same statutory requirements as are applicable to all other transmission rates established by BPA, with the additional requirement that such rates for transmission services must also be just and reasonable and not unduly discriminatory or preferential as determined by the Commission, taking into account BPA's other statutory authorities and responsibilities.

H.R. Conf. Rep. No. 102-1018, 102nd Cong., 2d Sess. 389 (1992) *reprinted in* 1992 U.S.C.C.A.N. 2480 (Conference Report). Thus, the Administrator's rate decisions remain entitled to substantial deference by the Commission.

In its final rule *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities* (Order 888), the Commission included a reciprocity provision applicable to all non-public utilities, such as municipal power authorities and federal power marketing administrations. 61 Fed. Reg. 21,540, 21,610-14, FERC Stats. and Regs., ¶ 31,036 (1996). Under the reciprocity provision, non-public utilities may voluntarily submit to the Commission a transmission tariff and a request for a declaratory order that the tariff meets the Commission's comparability (non-discrimination) standards. 61 Fed. Reg. at 21,613. If the Commission finds that a tariff contains terms and conditions that substantially conform or are superior to those in the Order 888 pro forma tariff, the Commission will deem it an acceptable reciprocity tariff and will require public utilities to provide open access service to that non-public utility. *Id.* at 21,614. In order to find that a non-public utility's tariff is consistent with the Commission's comparability standards, the Commission must have sufficient information to conclude that the rates the non-public utility charges itself are comparable to the rates it charges others. *Id.*

2.0 SETTLEMENT AGREEMENT

The TBL's rate proposal reflects the terms of the Settlement Agreement the TBL entered into with the parties. Metcalf and Parker, TR-06-E-BPA-03, at 2. The Settlement Agreement is attached as Appendix A to this ROD. As noted above, no rate case party filed any objection to any aspect of the TBL rate proposal. Therefore, the TBL recommended that the Administrator establish rates consistent with the Settlement Agreement. In this Record of Decision, I adopt the proposed rates.

2.1 Changes in Rates

Under the Settlement Agreement, transmission and ancillary services rates are increased by an average of 12.5%. Metcalf and Parker, *supra*, at 3. The Settlement Agreement specifies rate levels for BPA's transmission and ancillary service rates during the FY 2006-2007 rate period, as provided in Attachment 1 to the Settlement Agreement and reflected in the Final Rate Schedules. The Final Rate Schedules are attached as Appendix B to this ROD. The FPT-06.3 Formula Power Transmission Rate charges are not changing because the rate cannot be adjusted until FY 2008. Metcalf and Parker at 3-4.

Under the Settlement Agreement, the TBL will pay the PBL $1.5 million per year for redispatch services provided under Attachment K to BPA's Open Access Transmission Tariff (OATT). Settlement Agreement, p. 1. A fixed annual payment is appropriate because of the difficulty of calculating the actual costs of redispatch. During the rate period, BPA will continue to work toward developing a methodology for determining the costs of redispatch. Metcalf and Parker at 11. Except for redispatch that occurs within the hour of delivery, redispatch under Attachment K is provided only when needed to maintain Network Integration Transmission (NT) service. *Id.* The $1.5 million per year redispatch cost is recovered solely through the NT Load Shaping Charge. *Id.* Pursuant to the Settlement Agreement, TBL will submit as a separate filing a revised Attachment K as a proposed amendment to BPA's OATT, with a requested effective date of October 1, 2005.

In addition to the rate increase, the Settlement Agreement includes several changes to the rate schedules. The Ancillary Service and Control Area Service Rate schedule has been revised to provide formula rates for the following services: Reactive Supply and Voltage Control from Generation Sources Service (GSR), Regulation and Frequency Response Service (RFR), Operating Reserves – Spinning Reserves Service, and Operating Reserves – Supplemental Reserve Service. The Formula Power Transmission (FPT-06.1) Rate and the Integration of Resources Rate, which include a GSR cost component, also are revised to be formula rates to reflect changes in the GSR rate. Metcalf and Parker at 4. Formula rates will allow TBL to pass through two types of costs as they become known during the rate period. The two types of costs are: 1) the generation inputs for the ancillary services of GSR Service, RFR Service, and Operating Reserves – Spinning and Supplemental Reserve Services that will be determined in the 2007 PBL rate case; and 2) TBL compensation to non-Federal generators for GSR service through payment to such generators of a FERC-approved rate, or providing credits to transmission customers for self-supplying GSR service. *Id.* at 4 - 7.

The Advanced Funding Rate is being revised to clarify that it applies to cases in which the customer is reimbursed for all or part of its advance payment in the form of credits against transmission service, such as credits for advance funding and repayment of the costs of network upgrades constructed for a new generation interconnection. *Id.* at 7 - 8.

The Failure to Comply Penalty Charge is being revised to clarify that the customer must curtail or redispatch to limit actual use of the transmission system. Certain types of schedules may not always reflect actual use. Metcalf and Parker at 8. This rate schedule revision will help to ensure that appropriate actions are taken to comply with directions issued by TBL, regardless of whether the schedule accurately reflects use of the transmission system. In addition, the market index rate in section 1.c. of the Charge is changed from a defunct CAISO index to one that is active. Metcalf and Parker at 8.

The billing factor for Hourly Nonfirm Service for OATT Point-to-Point service (the Point-to-Point (PTP), Southern Intertie (IS), and Montana Intertie (IM) rate schedules) is being revised to be Reserved Capacity instead of capacity that is actually scheduled and used. *Id.* at 9. This change, which will occur on 60-day notice after necessary changes to TBL systems and Business Practices have been made, will encourage more efficient use of the Federal Columbia River Transmission System. *Id.*

The PTP, IS, and IM rate schedules are being revised to state that no additional charge will be assessed when the customer redirects long-term service to short-term service pursuant to OATT section 22.2. Metcalf and Parker at 8.

The NT Rate "Declared Customer-Served Load (CSL)" definition is revised to limit Declared CSL to the annual amounts, resources and contracts specified in the NT Service Agreement on October 1, 2005. TBL intends to eliminate CSL effective October 1, 2011, and this revision is a first step in phasing out CSL. *Id.* at 10.

The GTA Delivery Charge is a BPA Power Business Line (PBL) rate for low voltage delivery over third party transmission systems, and it is charged to PBL power customers that take delivery on low voltage facilities when PBL is paying for the transfer service over the third party transmission system. *Id.* at 10 – 11. PBL will charge its GTA Delivery Charge customers the same rate as the TBL Utility Delivery charge agreed to in the Settlement Agreement for the FY 2006-2007 period. The GTA Delivery Charge after that period will be determined in the power rate case, and PBL will address the charge in a rate workshop before the FY 2007 power rate case. *Id.*

2.2 Other Settlement Agreement Provisions

In addition to the rate issues discussed above, TBL committed in the Settlement Agreement to work to develop a new "conditional firm" transmission product. In March 2005, TBL participated in a Commission-sponsored technical conference related to the development of new transmission products intended to more efficiently utilize constrained transmission grids and support the development of renewable generation resources, including wind. TBL is continuing efforts to develop the conditional firm transmission product.

The Settlement Agreement also required BPA to work with its customers through TBL's Business Practice Forum to establish criteria, and implement a business practice prior to October 1, 2005, for customers to receive credits for self-supplying GSR service from qualifying non-federal generators. TBL and a customer work group developed GSR self-supply criteria and TBL has posted on its website its Self-Supply of Generation Supplied Reactive Business Practice, Version 1, effective April 1, 2005.

The Settlement Agreement also includes provisions regarding use of financial reserves. Those provisions are discussed in section 3.3.1, below.

3.0 TRANSMISSION REVENUE REQUIREMENT

3.1 Introduction

BPA is a self-financed power marketing agency within the Department of Energy (DOE). Sales of electric power and transmission services provide BPA's primary sources of revenue. *See Central Lincoln Peoples' Utility District v. Johnson,* 735 F.2d 1101, 1116 (9th Cir. 1984). BPA's transmission and ancillary services rates are based on the Administrator's total system costs, and must produce revenues which are sufficient to assure repayment of the Federal investment in the FCRPS over a reasonable number of years after first meeting the Administrator's other costs. 16 U.S.C.§ 839e(a)(2)(A) and (B). At the same time, BPA must set transmission and ancillary services rates with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles. 16 U.S.C. § 825s, § 839g, and § 839(a)(l).

Rates to recover the costs set forth in BPA's generation revenue requirement were established in BPA's 2002 power rate case for the period through FY 2006. *See* Final Power Rate ROD, WP-02-A-02 and Supplemental Power Rate ROD, WP-02-A-09. For FY 2007, the transmission and ancillary services rates rely on formulas in the ACS-06, FPT-06.1, and IR-06 rates to recover BPA's generation revenue requirement costs. Metcalf and Parker, *supra*, at 4 – 7. BPA has determined separate revenue requirements for generation and transmission since 1984, pursuant to a Commission order. *See United States Department of Energy - Bonneville Power Admin.,* 26 FERC ¶ 61,096(1984).

The proposed transmission and ancillary services rates established herein are designed to recover BPA's costs as set forth in the transmission revenue requirement. *See* Revenue Requirement Study, TR-06-FS-BPA-01, Table 1, and Knudsen and Woerner, TR-06-E-BPA-04, Attachment 3. Consistent with BPA's statutory obligations, the transmission revenue requirement is comprised of the Administrator's total transmission-related costs, including costs to assure the timely repayment of the Federal investment in BPA's transmission assets. The transmission revenue requirement establishes the level of revenue required to recover all of BPA's costs of transmitting electric power, which include: the Federal investment in transmission and transmission-supporting facilities; operations and maintenance (O&M) expenses; transmission marketing and scheduling expenses; the cost of generation inputs for ancillary services and reliability; and all other transmission-related costs incurred by the Administrator. *See* Final Revenue Requirement Study, TR-06-FS-BPA-01, at 1.

3.2 Revenue Requirement Development

BPA develops its revenue requirement to recover its costs in conformance with its statutory obligations and the financial, accounting, and repayment requirements of the Department of Energy's Order No. RA 6120.2. Final Revenue Requirement Study, TR-06-FS-BPA-01, Chapter 5.

The transmission revenue requirement for the FY 2006-2007 rate period was developed using a cost accounting analysis comprised of three components:

- Repayment studies are conducted to determine the schedule of amortization payments and to project annual interest expense for bonds and appropriations that fund the Federal investment in transmission. Repayment studies are conducted for each year of the two-year rate test period, and include a 35-year repayment period.

- Operating expenses functionalized to transmission and minimum required net revenues (if needed) are projected for each year of the rate test period.

- Annual planned net revenues for risk (PNRR), if any, are determined based on the risks identified, BPA's cost recovery goals, and risk mitigation measures.

Id. at 2.

Based on these analyses, the transmission revenue requirement is set at the revenue level necessary to fulfill BPA's cost recovery requirements and objectives. Order No. RA 6120.2 requires that BPA demonstrate the adequacy or inadequacy of its existing rates to recover its costs. BPA conducted a current revenue test to determine whether revenues projected from current rates meet its cost recovery requirements and objectives for the rate test and repayment periods. If the current revenue test indicates that cost recovery and risk mitigation requirements can be met, current rates could be extended. The current revenue test demonstrated that current revenues are insufficient to meet cost recovery requirements and objectives for the rate test period and the repayment period. *Id.* at 24-25.

Order No. RA 6120.2 also requires that BPA demonstrate the adequacy of proposed rates to recover its costs. The revised revenue test determines whether projected revenues from proposed rates will meet cost recovery requirements and objectives for the rate test and repayment periods. The revised revenue test demonstrates that revenues from proposed transmission and ancillary services rates recover transmission costs in the rate test period and over the ensuing 35-year repayment period. *Id.* at 25-26. In this proceeding, rate test period costs are demonstrated to be recovered with a high confidence level. Risks have been quantified and analyzed, and TBL has achieved at least a 95 percent probability that planned payments to Treasury will be made on time and in full over the two-year rate period. *Id.* at 6.

The Settlement Agreement did not result in any changes to the method that BPA uses to develop the revenue requirement. *See* Settlement Agreement, ROD Appendix A; Homenick, Jensen, and Lovell, TR-06-E-BPA-05, at 2. Changes from the initial proposal revenue requirement and repayment studies to the final proposal revenue requirement and repayment studies reflect updates based on actual financial data, as well as corrections to modeling inputs. Final Revenue Requirement Study, TR-06-FS-BPA-01, at 12.

3.3 Changes in Cost Obligations and Assumptions Used in Calculation of the Revenue Requirement

The Revenue Requirement Study incorporates three new items, as described below. Homenick, Jensen, and Lovell, *supra*, at 2.

3.3.1 Use of Reserves to Finance Capital Projects

The Settlement Agreement provides that BPA will use $15 million of designated TBL cash reserves in each year of the FY 2006-2007 rate period as a funding source for transmission capital programs rather than using Treasury borrowing authority, and that TBL will model such use of reserves in the calculation and presentation of the revenue requirement. Settlement Agreement, ROD Appendix A, at 2. This reserve financing assumption is modeled in the rate period revenue requirements. Final Revenue Requirement Study, TR-06-FS-BPA-01, at 42, Table 4, line 8; Homenick, Jensen, and Lovell, *supra*, at 3-4.

3.3.2 Third-Party Lease-Purchase Model

In March 2004, BPA entered into a 30-year lease-purchase agreement with a private party to finance construction of the 500 kilovolt Schultz-Wautoma transmission line. Homenick, Jensen, and Lovell at 5; Final Revenue Requirement Study, TR-06-FS-BPA-01, at 11. This third-party lease-purchase agreement allows BPA to make long-term capital asset purchases without using BPA's Treasury borrowing authority. Homenick, Jensen, and Lovell at 4. The line is projected to be energized November 2005. The annual lease payment is included in the rate period revenue requirements as an operating expense and the debt service stream over the life of the lease-purchase agreement is included in the transmission repayment studies as a fixed expense. *Id.* at 5.

3.3.3 Debt Optimization

Because access to Treasury borrowing is limited, BPA, since FY 2001, has carried out a program to replenish its Treasury borrowing authority. *Id.* at 6. Under this program, BPA refinances (extends) Energy Northwest debt and uses the proceeds to pay down Treasury debt, thus replenishing BPA's Treasury borrowing authority. *Id.* In 2003, BPA began applying this program to transmission Treasury debt. In return, transmission revenues recover the debt service of the associated Energy Northwest refinanced debt. This is the first transmission rate case in which this cost has been modeled in calculating the transmission revenue requirement. *Id.* at 7-9. *See* Homenick, Jensen and Lovell, TR-06-E-BPA-05, Section 2.C.

3.4 Repayment Studies

Repayment studies are performed as the first step in determining revenue requirements. The studies establish the schedule of annual U.S. Treasury amortization for the rate test period and the resulting interest payments.

In this rate filing, as in the previous transmission rate filing, the repayment period has been set at 35 years. This study horizon reflects the fact that the longest term of bonds BPA has issued does not exceed 35 years (up to 35 years for transmission investments and up to 15 years for environmental investments for transmission maintenance). As such, all outstanding appropriations and bonds in the transmission system are fully repaid within this period under a schedule determined to be the lowest levelized debt service stream necessary to repay all transmission obligations within the required repayment period. Final Revenue Requirement Study, TR-06-FS-BPA-01, at 13-14.

The Revenue Requirement Study includes the results of transmission repayment studies for each of the two years in the rate test period, FYs 2006 and 2007. In conducting the repayment studies, BPA includes outstanding and projected transmission repayment obligations on appropriations and on bonds issued to the U.S. Treasury. Funding for replacements projected during the repayment period also is included in the repayment study, consistent with the requirements of RA No. 6120.2. *Id.* at 13.

3.4.1. Bond Rollover Feature in Munex Software

During FY 2004, BPA implemented a new Bond Rollover feature in the Munex software associated with the repayment study model. Homenick, Jensen, and Lovell at 9. The feature reflects BPA's practice of taking advantage of current reduced interest rates by issuing and rolling over short-term debt to the Treasury and by engaging in debt optimization with Energy Northwest, described above in section 3.3.3. *Id.* at 10. Without this feature, the repayment program would only recognize that these short-term bonds must be paid in full by their issued due dates, resulting in artificially higher repayment schedules than if the bonds had repayment periods that were closer to the average service lives of the associated assets. *Id.* The short-term bonds will ultimately be repaid by the repayment study, but at the optimum schedule determined by the model and the program operator. *Id.* at 10-11.

3.5 Planned Net Revenues for Risk

In the 1993 Final Rate Proposal BPA determined that, as a long-term policy, it would plan to set its total rates to maintain financial reserves sufficient to achieve a 95 percent probability of meeting Treasury payments in full and on time for each 2-year rate period. 1993 Final Rate Proposal, Administrator's ROD, WP-93-A-02, at 72-73.

The probability of meeting its Treasury payment obligation is the primary measure of BPA's ability to recover its costs. BPA has applied the same risk analysis in the

FY 2006-2007 rate period as in the past. Homenick, Jensen, and Lovell at 11. To achieve the above Treasury Payment Probability (TPP), the following risk mitigation "tools" were considered:

1. Starting reserves: Starting financial reserves include cash and the deferred borrowing balance attributed to the transmission function. The most likely value for starting reserves is projected to total $183.4 million at the beginning of FY 2006. Final Revenue Requirement Study, TR-06-FS-BPA-01, at 7.

2. Planned Net Revenues for Risk: PNRR is a component of the revenue requirement that is added to annual expenses. PNRR adds to cash flows so that financial reserves are sufficient to mitigate short-run volatility in costs and revenues and achieve the TPP goal. No PNRR were required to meet the TPP standard in this rate filing. *Id.*

3. Two-Year Rate Period: The rates established in this record will be effective for a two-year rate period. The ability to revise rates after two years, or more frequently if necessary, serves as an important risk mitigation tool. A two-year rate period limits the effects of uncertainty. *Id.* Moreover, even though I am adopting the rate settlement in this ROD, BPA retains the right to initiate a process to raise rates during the rate period if necessary.

3.6 Transmission Risk Analysis

To quantify risks, the effects of uncertainty in costs and revenues on transmission cash flows were analyzed using a Monte Carlo simulation method. The analysis estimated the probability of successful Treasury payment (on time and in full) for both years of the rate period. Successful Treasury payment is deemed to occur when the end-of-year transmission cash reserve, after Treasury payments are made, is sufficient to cover the transmission working capital requirement of $20 million. The working capital threshold is based on the monthly net cash flow patterns and requirements for the transmission function. Final Revenue Requirement Study, TR-06-FS-01, at 8.

The risk analysis covers the period FY 2005 through FY 2007. This time frame is used to permit analyzing the change in revenues, costs, and accrual-to-cash adjustments that is expected to occur between the development of the final rate proposal and the end of the rate period. The advantage to this approach is that cash reserves at the start of the FY 2006-2007 rate period may be estimated, thus helping to define the starting conditions for the next rate period. *Id.*

The foundation of the risk analysis Monte Carlo simulation is a transmission financial spreadsheet model. This model was developed to estimate the effects of risk and risk mitigation on end-of-year cash reserves and the likelihood of successful Treasury payment during the rate period. Cash reserve levels at the end of the fiscal year determine whether BPA is able to meet its Treasury payment obligation. *Id.* at 9. If cash reserves are sufficient to cover working capital requirements at the end of the fiscal year, it can be assumed that the Treasury payment was made in full and on time that fiscal year. End-of-year cash reserves during the rate period are the main outcome of interest in the model. Parameters for the probability distributions were developed from historical data and analysis of risk factors. *Id.*

The transmission risk analysis simulation performed for this rate case resulted in a Treasury Payment Probability greater than the 95 percent standard for the FY 2006 through 2007 rate period. *Id.* at 6.

4.0 TRANSMISSION AND ANCILLARY SERVICES RATES

4.1 Description of Transmission Rates and Ancillary Services Rates

BPA's 2006 Final Transmission and Ancillary Services Rate Proposal is attached as Appendix B to this ROD. The rates reflect the rate provisions of the Settlement Agreement. In addition, the Ancillary and Control Area Services (ACS-06) Operating Reserve rates update the billing factor to reflect the current Northwest Power Pool Reserve Sharing Procedure under which the Reserve Requirement for wind generation is five percent, split equally between Spinning and Supplemental Reserve Service. Metcalf and Parker, *supra*, at 10.

The majority of the proposed rates apply to transmission service under BPA-TBL's proposed OATT. The rates applicable to the OATT are the Network Integration (NT-06) rate, Point-to-Point (PTP-06) rate, Southern Intertie (IS-06) rate, Montana Intertie (IM-06) rate, and the Ancillary and Control Area Services (ACS-06) rates. The proposed Use-of-Facilities (UFT-06) rate and Advanced Funding (AF-06) rate may be used in conjunction with open access service. The UFT-06 and AF-06 rates also apply to pre-OATT transmission service. The ACS-06 rate schedule includes rates for the six ancillary services included in OATT service, plus rates for four control area services that are required for reliability of resources and loads in the BPA Control Area.

In addition, the Integration of Resources (IR-06) rate and the Formula Power Transmission (FPT-06) rates are proposed for pre-OATT firm transmission contracts. Two rates, Townsend-Garrison (TGT-06) and Eastern Intertie (IE-06), are available to parties to the Montana Intertie Agreement. A variety of other charges are also proposed, including a Delivery Charge for use of low-voltage DSI and Utility Delivery facilities, the Failure to Comply Penalty Charge, a Power Factor Penalty Charge, the Reservation Fee, and a GTA Delivery Charge.

4.2 Equitable Allocation

4.2.1 The Equitable Allocation Standard

Section 7(a)(2)(C) of the Northwest Power Act provides that the Commission will confirm and approve BPA's rates upon a finding that "such rates equitably allocate the costs of the Federal transmission system to Federal and non-Federal power using the system." 16 U.S.C. § 839e(a)(2)(C). *See* Transmission System Act section 10, 16 U.S.C. § 838h, which also includes an equitable allocation standard. In addition to the equitable allocation standard, section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839(a)(1), incorporates by reference section 9 of the Transmission System Act, 16 U.S.C. § 838g, which provides that rates "shall be fixed and established: (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." Similar language is also contained in section 5 of the Flood Control Act. 16 U.S.C. § 825s.

Taken together, the "equitable allocation" and "widest possible use consistent with sound business principles" standards evince a Congressional intent to give BPA substantial ratemaking discretion. The equitable allocation standard does not expressly or implicitly mandate that each of BPA's transmission rates must reflect costs that are equitably allocated. Rather, it requires equitable allocation of transmission rates in the aggregate.

Furthermore, Section 7(e) of the Northwest Power Act grants the Administrator considerable rate design discretion, including the authority to determine the appropriate method for recovering transmission costs that have been allocated to Federal use. Section 7(e) provides that "[n]othing in this chapter prohibits the Administrator from establishing, in rate schedules of general application, a uniform rate or rates for sale of peaking capacity or from establishing time of day, seasonal rates or other rate forms." 16 U.S.C. § 839e(e). Accordingly, BPA can choose among a variety of rate designs for particular transmission rates, as long as BPA's transmission rates in total are designed to ensure that the costs of the transmission system are equitably allocated.

4.2.2 Comparability

With enactment of Energy Policy Act of 1992 (EPA'92), Congress declared a national policy choice of encouraging the development of competitive power markets through the availability of open transmission access. EPA'92 amended sections 211 and 212 of the Federal Power Act to allow the Commission to order transmitting utilities to provide transmission service to eligible transmission customers. The definition of transmitting utility includes a Federal Power Marketing Administration, such as BPA. The Federal Power Act, as amended, contains provisions specifically applicable to the FCRTS. 16 U.S.C. § 824k(i)(l).

Since passage of EPA'92, the Commission has actively declared its policy to remove barriers to competition in the electric energy industry by promoting open access transmission, both through rulings on a case-by-case basis, and through rulemaking. Order 888, 61 Fed. Reg. at 21,550. The construct that has emerged relies on the concept of "comparability." As the Commission stated in Order 888:

> The Commission found that a voluntarily offered, new open access transmission tariff that did not provide for services comparable to those that the transmission owner provided itself was unduly discriminatory and anticompetitive. In reaching that conclusion, the Commission broadened its undue discrimination analysis . . . to include a focus on the rates, terms and conditions of a utility's own uses of the transmission system.

Id. at 21,548. The Commission further stated that "an open access tariff that is not unduly discriminatory or anticompetitive should offer third parties access on the same or comparable basis, and under the same or comparable terms and conditions, as the transmission provider's uses of the system." *Id.*, citing *American Electric Power Service Corporation,* 67 FERC. ¶ 61,317, at 61,490 (1994). In addition, the Commission required that certain ancillary services that are needed to provide basic transmission service be provided to transmission customers. Order 888, 61 Fed. Reg. at 21,581. The Commission has also required jurisdictional utilities to functionally unbundle transmission from generation. *Id.* at 21,552.

Although Order 888 does not apply to BPA, the Commission has declared its intention to apply the policies it announces as broadly as it can through sections 211 and 212 of the Federal Power Act, to promote a national policy of open transmission access. *Id.* at 21,572-73. In furtherance of this goal, the Commission included areciprocity provision in Order 888, allowing non-public utilities to voluntarily submit to the Commission a tariff and a request for a declaratory order that the tariff meets the Commission's comparability standards. *Id.* at 21,613. Thus, BPA sets rates for transmission over the FCRTS to conform to the policies announced in Order 888. Equitable allocation and comparability are similar concepts in that, under each, Federal and non-Federal power have access to the FCRTS under the same or comparable rates, terms and conditions.

4.2.3 Settlement Rates Satisfy Equitable Allocation Standard And Comparability

The proposed transmission and ancillary service rates provide an equitable allocation of Federal transmission costs between Federal and non-Federal power. In previous rate cases, BPA segmented the transmission system and developed a methodology to allocate costs between Federal and non-Federal power using the transmission system. These segmentation and cost allocation methodologies formed the basis for the demonstration that costs were equitably allocated. BPA has not performed a segmentation study for this rate case. Nevertheless, for two reasons the proposed settlement rates represent an equitable allocation between Federal and non-Federal power using the system. Metcalf and Parker, TR-06-E-BPA-03, at 11-12.

First, equitable allocation between Federal and non-Federal power is achieved through adherence to the principle of comparability. Prior to 1996, when most transmission for Federal power was provided for in bundled power sales contracts, an allocation of costs in the rate case was needed to demonstrate equitable allocation of transmission costs between Federal and non-Federal power. Under BPA's Open Access Transmission Tariff, purchasers of transmission for Federal power, including both the PBL and the PBL's customers, receive the same service and pay the same rates as purchasers of transmission for non-Federal power. An equitable allocation of transmission costs between Federal and non-Federal power is achieved through application of the same rates to the two classes of service. *Id.*

Second, equitable allocation is demonstrated by the breadth of the settlement and the diversity among the settling parties. The settling parties include the PBL and PBL full requirements customers; large partial requirements customers that both buy Federal power and wheel large amounts of non-Federal power; large wheeling customers, such as the region's Investor Owned Utilities, which purchase little Federal power; and power marketers and resource developers. BPA would not have been able to obtain the agreement of such a large group of customers with such diverse interests unless the proposed allocation of costs was equitable. *Id.* at 12.

5.0 ENVIRONMENTAL ANALYSIS

An analysis of potential environmental effects related to BPA's policy-level business decisions is contained in BPA's Business Plan EIS (DOE/EIS-0183, June 1995), and BPA's overall business policy decision is documented in the August 15, 1995, Business Plan ROD. The Business Plan EIS was prepared in response to a need for an adaptive business policy that would allow BPA to be more responsive to the evolving and increasingly competitive wholesale electricity market, while still meeting both its business and public service missions. BPA thus designed the Business Plan EIS to support a wide array of business decisions, including decisions to establish rates for products and services in rate cases in 1995 and thereafter. Business Plan EIS, section 1.4. BPA identified several purposes for consideration, including: achieving strategic business objectives; competitively marketing BPA's products and services; providing for equitable treatment of Columbia River fish and wildlife; achieving BPA's share of the Northwest Power Planning Council conservation goal; establishing rates that are easy to understand and administer, stable, and fair; recovering costs through rates; meeting legal mandates and contractual obligations; avoiding adverse environmental impacts; and establishing productive government-to-government relationships with Indian Tribes. *Id.*, section 1.2; Business Plan ROD, sections 5 and 6.

BPA's Business Plan EIS evaluates six alternative business directions: Status Quo (No Action); BPA Influence; Market-Driven; Maximize Financial Returns; Minimal BPA; and Short-Term Marketing. Each of the six alternatives provides policy direction for deciding 19 major policy issues that fall into five broad categories: Products and Services, Rates, Energy Resources, Transmission, and Fish and Wildlife Administration. Business Plan EIS, section 2.4. Policy issues related to transmission services include: Unbundling of Transmission and Wheeling Services; Transmission and Wheeling Pricing; Transmission System Development; Transmission Access; Assignability of Rights Under BPA Wheeling Contracts; Retail or DSI Wheeling; Customer Service Policy and Sub-transmission; and Operations, Maintenance, and Replacement of the Transmission System. *Id.*, section 2.4. These issues incorporate information about the various rate designs and charges that could be implemented for BPA's transmission products and services. *Id.*, sections 2.4.1.6 and 2.4.2.2, Appendix B. Table 2.4-1 of the EIS shows how the alternatives evaluated in the EIS treat these issues, and Figure 2.4-3 shows the major influences, including products and pricing, on transmission development.

Four policy options, or modules, were also developed in the EIS to allow variations of the alternatives in key areas, including rate design. The alternatives and modules are designed to cover the range of options for the important issues affecting BPA's business activities, as well as the impacts of those options, and variations can be assembled by matching issues and substituting modules among the six alternatives. *Id.*, section 2.1.2. All of the alternatives and modules are examined under two widely different hydro operations strategies that serve as "bookends" for reasonably possible hydro operations. These alternatives thus represent a range of reasonable alternatives for BPA's business activities and BPA's ability to balance costs and revenues.

The Business Plan EIS focuses on BPA's relationships to the market. Previous environmental studies for key BPA actions have shown that actual environmental impacts are determined by the market responses to BPA's marketing and business decisions, rather than by the actions themselves. *Id.*, sections 2.1.5 and 4.1.2. Four types of market responses are identified: resource development; resource operations; transmission development and operation; and consumer behavior. These market responses determine the environmental impacts, which include air, land, and water impacts, as well as socioeconomic impacts. *Id.*, Figure 2.1-1 and figure S-2. Figure 2.4-1 shows how decisions on key issues that change BPA rates affect market responses and the environment. *Id.*, section 2.4.2.1.

To determine the potential environmental consequences of the various alternatives, the EIS identifies general market responses to key policy issues. *Id.*, Table 4.2-1. The market responses for products and services are discussed for each of the alternative business directions, and the market responses for rates are also are discussed. *Id.*, sections 4.2.1 and 4.2.2. The market responses and the environmental consequences are discussed both in general terms and in terms specific to each alternative. *Id.*, section 4.3. Table 4.3-1 details the typical environmental impacts from power generation and transmission. Section 4.4 presents the market responses and environmental impacts by alternative, under two "bookend" hydro operation scenarios. Table 4.4-19 summarizes the key environmental impacts by alternative. *Id.*, section 4.4.3.8. In addition, Appendix B to the Business Plan EIS includes an extensive evaluation of rate design, including market response and environmental impacts. *Id.*, Appendix B.

Thus, the Business Plan EIS is based on a "relationship analysis" – that is, BPA has quantitatively and qualitatively evaluated relationships between variables in the short run, and assumed that these relationships will hold true in the long term. While section 4.4.3 of the Business Plan EIS does provide a discussion of possible rate levels, this discussion was provided as an illustrative example only, and was not intended to be relied on for quantitative comparisons in the future.

As can be seen from the environmental analysis presented in the Business Plan EIS, the potential environmental impacts of all business direction alternatives fall within a fairly narrow band, and several of the key impacts are virtually identical across alternatives. In addition, the costs of environmental externalities differ only slightly among alternatives. *Id.*, Table 4.4-20. Thus, the differences among alternatives in total environmental impacts are relatively small. Each of the alternative business directions examined in the Business Plan EIS is also evaluated against the purposes for the action to determine how well each of the alternatives meets the need. *Id.*, section 2.6.5; Business Plan ROD, Table 2.

Based on the evaluation of potential environmental impacts and the comparison of each alternative to the identified purposes, the Administrator chose the Market-Driven alternative. Business Plan ROD, section 6. Although the Status Quo and the BPA Influence alternatives were the environmentally preferred alternatives, the differences among alternatives in total environmental impacts were relatively small, and BPA's ability to meet its public and financial responsibilities would be weakened under these two alternatives. In addition, other business aspects, including loads and rates, showed greater variation among the alternatives. The Market-Driven alternative strikes a balance between marketing and environmental concerns. It also assists BPA in maintaining the financial strength necessary to continue a relatively high level of support for public service benefits, such as energy conservation and fish and wildlife mitigation activities.

Recognizing that the Administrator could select a variety of actions, BPA included many mitigation response strategies in the Business Plan EIS and ROD to address changed conditions and allow the agency to balance costs and revenues. These strategies include measures that BPA could implement to increase revenues (including rates), decrease spending, and/or transfer costs if its costs and revenues do not balance. Business Plan EIS, section 2.5; Business Plan ROD, section 7. These strategies enable BPA to best meet its financial, public service, and environmental obligations, while remaining competitive.

The Business Plan EIS and ROD also documented a decision strategy for tiering subsequent business decisions to the Business Plan ROD. Business Plan EIS section 1.4; Business Plan ROD, section 8. For each such decision, as appropriate, the BPA Administrator reviews the Business Plan EIS and ROD to determine whether the proposed subsequent decision falls within the scope of the Market-Driven alternative evaluated in the EIS and adopted in the ROD. If the action is found to be within the scope of this alternative, the Administrator may tier his decision for the proposed action to the Business Plan ROD and thus issue a "tiered" ROD. Tiering a ROD to the Business Plan ROD helps BPA delineate decisions clearly, and provides a logical framework for connecting broad programmatic decisions to more specific actions. Business Plan EIS, section 1.4.

Based on a review of the Business Plan EIS and ROD, I have determined that the 2006 Final Transmission and Ancillary Services Rate Proposal is a direct application of the Market-Driven alternative. This rate proposal is consistent with the competitive and unbundled yet cost-based characteristics of the Market-Driven alternative, and the issues related to this proposal are consistent with the analysis of key policy issues related to transmission services identified for the Market-Driven alternative. *Id.*, sections 2.2.3 and 2.6. In addition, this rate proposal does not differ substantially from the types of rate designs considered and evaluated in the Business Plan EIS. *Id.*, sections 2.4.1.6 and 2.4.2.2, Appendix B. Because of these consistencies, implementation of this rate proposal would not be expected to result in significantly different environmental impacts from those examined for the Market-Driven alternative in the Business Plan EIS.

Furthermore, the 2006 Final Transmission and Ancillary Services Rate Proposal will assist BPA in accomplishing the goals of the Market-Driven alternative identified in the Business Plan ROD. This alternative was selected as BPA's business direction because, among other reasons, it allows BPA to: (1) recover costs through rates; (2) competitively market BPA's products and services; (3) develop rates that meet customer needs for clarity and simplicity; and (4) continue to meet BPA's legal mandates. The current rate proposal allows BPA to continue to recover its transmission and ancillary service costs though its rates while remaining competitive. In addition, the rate design included in the rate proposal has been made as clear and simple as possible, given the various types of service covered in the proposal. Finally, BPA believes that it will be able to meet its legal mandates under the rate proposal.

Thus, the 2006 Final Transmission and Ancillary Services Rate Proposal falls within the scope of the Market-Driven alternative identified and evaluated in the Business Plan EIS and adopted by the Administrator in the Business Plan ROD. The decision to implement this rate proposal therefore is tiered to the Business Plan ROD, as provided for in the Business Plan EIS and Business Plan ROD.

6.0 ADMINISTRATOR'S DECISION

As required by law, the transmission and ancillary services rates established and adopted by this ROD have been set to recover the costs associated with the transmission of electric power, including the amortization of the Federal investment in the FCRTS over a reasonable period of years, and all other costs and expenses incurred by the Administrator in carrying out the requirements of the Northwest Power Act and other provisions of law. The rates have been established with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles. In addition, the transmission and ancillary services rates are designed to equitably allocate the cost of the Federal transmission system between Federal and Non-Federal power using the system. Finally the rates satisfy the Commission's comparability standards, as the transmission of Federal power will be charged the same rates as the transmission of non-Federal power under BPA-TBL's open access transmission tariff.

BPA must establish its transmission and ancillary services rates in a proceeding pursuant to section 7(i) Northwest Power Act. BPA began a formal 7(i) proceeding with publication of a Federal Register Notice of Transmission Rate Case on February 2, 2005. The hearing officer has assured that all interested parties in that proceeding were afforded the opportunity for a full and fair evidentiary hearing, as required by law.

BPA has evaluated the potential environmental impacts of BPA's 2006 Transmission and Ancillary Services rate proposal, consistent with NEPA. I have considered the environmental analysis contained in the Business Plan EIS in making the decisions in this ROD, and I have determined that this rate proposal is adequately covered within the scope of the environmental analysis provided by the Business Plan EIS. Since the rate proposal also is consistent with the Market-Driven alternative adopted in the Business Plan ROD, the decision to implement this rate proposal is tiered to the Business Plan ROD.

Based upon the record compiled in this proceeding, the decisions expressed herein, and the requirements of law, I hereby adopt the attached Transmission and Ancillary Services Rate Schedules as the Bonneville Power Administration's 2006 Final Transmission and Ancillary Services rate proposal. The rate levels and other provisions in the attached rate schedules are consistent with the rates proposed in the Settlement Agreement. In accordance with the Commission's filing requirements applicable to Federal power marketing administrations, 18 CFR § 300.10(g), I hereby certify that the Transmission and Ancillary Services rate proposal adopted herein are consistent with applicable laws and are the lowest possible rates, consistent with sound business principles.

Issued in Portland, Oregon this 16th day of June, 2005.

Stephen J. Wright
Administrator
Bonneville Power Administration

Appendix A

Settlement Agreement

SETTLEMENT AGREEMENT
Bonneville Power Administration 2006 Transmission Rate Case

The undersigned signatories to this Settlement Agreement hereby agree to the following:

1. In the Bonneville Power Administration (BPA) 2006 Transmission Rate Case (Rate Case), the Transmission Business Line (TBL) will submit a proposal (Initial Proposal) commencing the rate process for the period FYs 2006-2007 (Rate Period) that reflects the Transmission and Ancillary Service rates shown in Attachment 1.

2. Redispatch

   a. The signatories recognize and agree that there is value associated with the redispatch of hydro-electric resources and other generation. BPA will develop information during the Rate Period regarding the amount of and reason for redispatch requested by TBL and the amounts and locations of redispatch provided by the Power Business Line (PBL). BPA will provide all such information developed to any party requesting it. During the Rate Period, BPA will also work to develop a method or methods to appropriately value redispatch associated with hydro-electric resources. BPA will discuss the proposed methods with and take comments from customers in rate case workshops or other public policy forums.

   b. The revised Open Access Transmission Tariff (OATT) Attachment K (shown in Attachment 2 to this Settlement Agreement) will replace the existing Attachment K. The TBL will compensate the PBL for redispatch services associated with Attachment K by paying PBL $1.5 million per year in FY 2006 and FY 2007 for all such services provided during such period. This payment by TBL to PBL is recovered solely through the NT Load Shaping charge. In the interest of reaching a settlement the signatories have agreed to this amount of compensation to the BPA PBL for providing redispatch during the Rate Period. However, nothing in this Settlement Agreement nor actions taken pursuant to section 2.a, above, will serve as a precedent for any methodology for implementing or valuing redispatch for future rate periods, or for the purpose of determining the rights of an RTO or any other regional transmission provider to require redispatch.

   c. TBL will submit the revised Attachment K (Attachment 2 to this Settlement Agreement) to the Federal Energy Regulatory Commission (FERC) as a proposed amendment to BPA's Open Access Transmission Tariff, and will request that it be effective as of October 1, 2005. The signatories agree not to challenge the approval of the revised Attachment K by FERC, and, if FERC approves the revised Attachment K without change, the signatories agree not to challenge such approval in any judicial forum.

3. NT Customer-Served Load

   The Initial Proposal will add the following language to the end of the definition of Declared Customer-Served Load in the NT rate schedule: "Declared Customer-Served Load shall not exceed the annual amounts and shall be limited to the resources and contracts specified in the Service Agreement on October 1, 2005."

   TBL currently intends to eliminate Customer-Served Load effective on October 1, 2011. Prior to that time, TBL agrees to work with interested customers to determine the most appropriate mechanism, if any, to recognize the contribution that local Network Resources make to the need for an adequate transmission system, and to determine whether a transition mechanism is appropriate for NT customers that currently serve Customer Served Load with such resources.

4. Effective on the date that TBL signs this Settlement Agreement, BPA will apply the pricing methodologies contained in FERC Order 2003-A for determining, funding, and allocating the costs of: Network Upgrades; Distribution Upgrades, if any; and Interconnection Facilities. TBL's Initial Proposal will include the revised AF rate schedule in Attachment 3. The AF rate schedule revisions clarify the availability of the AF rate to implement Order 2003-A.

5. For the period October 1, 2005 until September 30, 2007, PBL agrees to charge its GTA Delivery Charge customers the same rate as the TBL Delivery Charge agreed to in this Settlement Agreement. BPA will include the proposal for such PBL charge in the Initial Proposal. The GTA Delivery Charge for post-September 30, 2007 will be determined in the 2007 PBL rate case. PBL commits to address the GTA Delivery Charge either in a PBL rates workshop or other policy forum prior to commencement of the 2007 PBL rate case.

6. Reactive Supply and Voltage Control from Generation Sources Service (Generation Supplied Reactive): BPA agrees to work with customers through its Business Practice Technical Forum process to establish criteria for BPA Transmission Customers to receive credits for self-supplying Generation Supplied Reactive from qualifying non-federal generators, and draft a business practice incorporating the criteria. BPA reserves the right to determine what terms will be contained in the draft Generation Supplied Reactive business practice, and in any final business practice. BPA will use best efforts to post a final Generation Supplied Reactive self-supply business practice by April 1, 2005, for implementation on or before October 1, 2005.

7. TBL's Initial Proposal will include the Failure to Comply Penalty Charge in Attachment 4.

8. Financial Reserves

    a. BPA expects to use, and the signatories will not object to or otherwise challenge the agency's use of, $15 million recorded as TBL reserves in each year of the rate period (for a total of $30 million) as a funding source for transmission capital programs. The foregoing does not prohibit any signatory from objecting to or otherwise challenging the level of TBL capital programs, the specific projects included therein, or the level of expenditures for such project(s);

    b. The use of TBL reserves as a funding source for transmission capital programs as described in 8.a., above, will be modeled in the calculation and presentation of the revenue requirement in the Rate Case; and

    c. $15 million of transmission reserves described in 8.a., above, may be treated by the agency as dedicated to the funding of transmission capital programs and therefore unavailable for use as reserves for any purpose in the determination of the level of the SNCRAC for FY 2006.

9. Hourly Nonfirm

    TBL's Initial Proposal will include the language in Attachment 5.

10. Conditional Firm

BPA will work to develop a "conditional firm product" that includes long term duration and seasonal firm service in months as may be available. The product would also address elements such as curtailment priority during the months that firm ATC is not available, and how much new long-term and short-term firm service can be sold on BPA's system. BPA also commits to running an expedited 7(i) process to price this product should one be necessary for implementation, as well as any necessary filings or approvals.

11. Formula Rates for Generation Inputs

TBL's Initial Proposal will include formula rates consistent with the methodology described in Attachment 6 to recover the FY 2007 generation input costs adopted in the 2007 PBL rate case.

12. Formula Rates for Reactive Supply and Voltage Control from Generation Sources Service

TBL's Initial Proposal will include formula rates to: (a) recover the generation input costs of Reactive Supply and Voltage Control from Generation Sources Service adopted in the 2007 PBL rate case; (b) recover the costs of Reactive Supply and Voltage Control from Generation Sources Service charged TBL by generators according to FERC approved rates; and (c) reflect the self-supply of Reactive Supply and Voltage Control from Generation Sources Service by transmission customers. The rates will adjust quarterly to include known changes in the above three items as well as any underrecovery or overrecovery from the previous quarter. Formula rates will be proposed for the ACS Reactive Supply and Voltage Control from Generation Sources Service rate, the IR rate and the FPT-06.1 rate.

13. Redirected Service

Due to the per unit rate differences between Long-Term and Short-Term services, the PTP, IS and IM rate schedules in the Initial Proposal will be modified to include the following language:

Section III.C. Redirect Service

> Redirecting Long-Term Firm PTP to Short-Term Firm PTP service will not result in an additional charge if the capacity reservation does not exceed the amount reserved in the existing service agreement.

14. The signatories agree not to contest any aspect of the TBL's Initial Proposal, including but not limited to the level of any transmission or ancillary or control area services rate or any of the elements thereof, the methodologies and principles used to derive such rates, or any aspect of the rate schedules, or any general rate schedule provision, and agree to waive their rights to cross-examination and discovery with respect thereto. If, however, the TBL does not submit an Initial Proposal consistent with the terms of this Settlement Agreement, the signatories may contest any aspect of the TBL's proposal.

15. If no party in the Rate Case contests any aspect of the TBL Initial Proposal, the TBL will propose to the Administrator that he adopt the TBL's Initial Proposal and establish rates consistent therewith.

16. The signatories will move the Hearing Officer to specify a date within a reasonable time of the prehearing conference by which any party to the Rate Case that has not executed this Settlement Agreement (a) must object to the settlement proposed in this Settlement Agreement and identify each issue such party chooses to preserve for hearing; or (b) be deemed to have waived any right to object to the settlement proposal or preserve issues for hearing. If no party objects to the settlement proposal and preserves issues for hearing, the TBL shall propose to the Administrator that he adopt the Initial Proposal in its entirety. In the event that any party does so object, the TBL may, but shall not be required to, revise the Initial Proposal as it believes appropriate, either after such party states its objection or after parties file their direct testimony. If the TBL decides not to revise its Initial Proposal, the TBL will propose to the Administrator that he adopt the Initial Proposal in its entirety. If the TBL decides to revise, or otherwise departs from, its Initial Proposal, the TBL and the parties will meet promptly to discuss a new procedural schedule that they will propose to the Hearing Officer, allowing the TBL a reasonable time in which to present a revised proposal and the parties a reasonable time to respond to such revised proposal. In that event, the signatories may contest any aspect of TBL's proposal or position.

17. If the TBL submits an Initial Proposal consistent with the terms of this Settlement Agreement, and does not submit a revised proposal pursuant to section 16, the signatories agree not to enter any evidence into the Rate Case or make any argument in the Rate Case contesting any provision of section 36 of BPA's current OATT. If the Administrator establishes transmission rates consistent with the TBL's Initial Proposal and submits such rates to FERC for confirmation and approval, the signatories agree not to make any such argument before the FERC or any judicial forum during the Rate Period.

18. Nothing in this Settlement Agreement is intended in any way to alter the Administrator's authority and responsibility to periodically review and revise the Administrator's transmission rates or the signatories' rights to challenge such revisions.

19. If the Administrator establishes transmission rates consistent with the Initial Proposal and submits such rates to FERC for confirmation and approval only under the applicable standards of the Northwest Power Act and as part of a reciprocity filing, the signatories agree not to challenge such confirmation and approval of such rates or any element thereof, including the methodologies and principles used to establish such rates, or support or join any such challenge, and agree not to challenge such rates or any element thereof, including the methodologies and principles used to establish such rates, in any judicial forum. In addition, BPA's commitment in sections 2, 5, 6 and 10 of this Settlement Agreement shall apply only if the Administrator establishes rates consistent with the Initial Proposal and submits such rates to FERC for confirmation and approval.

20. The signatories agree that they will not assert in any forum that anything in this Settlement Agreement or any action with regard to this Settlement Agreement taken or not taken by any signatory, the Hearing Officer, the Administrator, FERC, or a court, creates or implies any procedural or substantive precedent or creates or implies agreement to any underlying principle or methodology, or creates any precedent under any contract between BPA and any signatory.

21. By executing this Settlement Agreement, no signatory waives any right to pursue BPA OATT dispute resolution procedures consistent with BPA's OATT (including without limitation any

complaint concerning implementation of BPA's OATT) or any claim that a particular charge, methodology, practice or rate schedule has been improperly applied.

22. Nothing in this Settlement Agreement amends any contract or modifies rights or obligations or limits the remedies available thereunder.

This Settlement Agreement may be executed in counterparts.

____________________________for

____________________________ Date ___________

Party

Attachment 1
Summary of Rate Level Changes

			(A)	(B)	(C)	(D)
		Units	Current 2004 Rates		Settlement 2006 Rates	Percent Change (C)/(A)
				FPT-04.3		(percent)
	FPT-06.1 and FPT-06.3		FPT-04.1	FY 2005	FPT-06.1	
1	M-G Distance....................	$/kW-mi-yr	0.0511	0.0518	0.0581	13.7%
2	M-G Miscellaneous Facilities.....	$/kW-yr	2.91	2.96	3.31	13.7%
3	M-G Terminal....................	$/kW-yr	0.59	0.60	0.67	13.6%
4	M-G Interconnection Terminal.....	$/kW-yr	0.53	0.54	0.60	13.2%
5	S-S Transformation..............	$/kW-yr	5.49	5.57	6.24	13.7%
6	S-S Interconnection Terminal.....	$/kW-yr	1.50	1.52	1.71	14.0%
7	S-S Intermediate Terminal........	$/kW-yr	2.12	2.15	2.41	13.7%
8	S-S Distance....................	$/kW-mi-yr	0.5021	0.5095	0.5709	13.7%
9	Overall FPT Rate..............	$/kW-yr	13.30	8.73	15.13	13.8%
10	Overall FPT Rate..............	$/kW-mo	1.109	0.728	1.261	13.7%
	IR-06					
11	Demand..........................	$/kW-mo	1.261		1.484	17.7%
	NT-06					
12	Base Rate ($/kW-mo).............	$/kW-mo	1.028		1.216	18.3%
13	Load Shaping ($/kW-mo)..........	$/kW-mo	0.425		0.367	-13.6%
14	Base plus Load Shaping.........	$/kW-mo	1.453		1.583	8.9%
	PTP-06					
15	Demand..........................	$/kW-mo	1.028		1.216	18.3%
16	Daily Block 1 (day 1 thru 5).....	$/kW-day	0.047		0.056	19.1%
17	Daily Block 2 (day 6 and beyond).	$/kW-day	0.035		0.043	22.9%
18	Hourly..........................	mills/kWh	2.96		3.50	18.2%
	Utility Delivery					
19	Demand..........................	$/kW-mo	0.946		1.119	18.3%
	IS-06					
20	Demand..........................	$/kW-mo	1.176		1.211	3.0%
21	Daily Block 1 (day 1 thru 5).....	$/kW-day	0.054		0.056	3.7%
22	Daily Block 2 (day 6 and beyond).	$/kW-day	0.040		0.042	5.0%
23	Hourly..........................	mills/kWh	3.39		3.48	2.7%
	IM-06					
24	Demand..........................	$/kW-mo	1.258		1.230	-2.2%
25	Daily Block 1 (day 1 thru 5).....	$/kW-day	0.058		0.057	-1.7%
26	Daily Block 2 (day 6 and beyond).	$/kW-day	0.042		0.040	-4.8%
27	Hourly..........................	mills/kWh	3.61		3.54	-1.9%

Attachment 1
Summary of Rate Level Changes

		Units	(A) Current 2004 Rates	(B)	(C) Settlement 2006 Rates	(D) Percent Change (C)/(A)
	Intertie East					
28	IE-06............................	mills/kWh	1.38		1.13	-18.1%
	Power Factor Penalty Charge					
29	Demand -- Lagging................	$/kVAr-mo	0.28		0.28	0.0%
30	Demand -- Leading................	$/kVAr-mo	0.24		0.24	0.0%
	Scheduling Control and Dispatch					
31	Demand...........................	$/kW-mo	0.166		0.203	22.3%
32	Daily Block 1 (day 1 thru 5).....	$/kW-day	0.008		0.010	25.0%
33	Daily Block 2 (day 6 and beyond).	$/kW-day	0.005		0.006	20.0%
34	Hourly...........................	mills/kWh	0.48		0.59	22.9%
	Generation Supplied Reactive					
35	Demand...........................	$/kW-mo	0.067		0.068	1.5%
36	Daily Block 1 (day 1 thru 5).....	$/kW-day	0.003		0.003	0.0%
37	Daily Block 2 (day 6 and beyond).	$/kW-day	0.002		0.002	0.0%
38	Hourly...........................	mills/kWh	0.19		0.19	0.0%
	Regulation and Frequency Response					
39	Hourly...........................	mills/kWh	0.30		0.32	6.7%
	Energy Imbalance					
40	Hourly...........................	mills/kWh	100.00		100.00	
	Operating Reserves					
41	Spinning.........................	mills/kWh	8.39		7.93	-5.5%
42	Supplemental.....................	mills/kWh	8.39		7.93	-5.5%
	GTA Delivery					
43	Demand...........................	$/kW-mo	0.946		1.119	18.3%

Attachment 2

Open Access Transmission Tariff
Revised Attachment K

For the period October 1, 2005, through September 30, 2007, to the extent the Transmission Provider determines that redispatch of Network Resources is necessary to maintain Network Integration Transmission (NT) Service, the Transmission Provider shall implement redispatch in accordance with the provisions of this Attachment K. Attachment K addresses only circumstances in which the Tariff requires NT and Point-to-Point (PTP) uses on a constraint be reduced on a comparable basis.

1. The Transmission Provider shall not issue redispatch instructions under this Attachment K to increase ATC.

2. The BPA Power Business Line (PBL) will inform the Transmission Provider of all non-power constraints that limit the PBL's ability to redispatch generation resources. The Transmission Provider will not violate these non-power constraints unless an emergency situation leaves no other alternative for maintaining system reliability or providing safety to individuals or property. Notwithstanding any other provision of Attachment K, the protection of transmission system reliability and the safety of people and property will be the primary criteria the Transmission Provider will use in an emergency situation.

3. PBL will provide the Transmission Provider federal hydroelectric generation resource set points. The Transmission Provider may request changes to such set points. Not all changes to set points are redispatch.

4. For redispatch that occurs within the hour of delivery:

   If the Transmission Provider determines that a redispatch of federal hydro-electric projects is necessary to maintain the reliability of the FCRTS in real-time and the Transmission Provider is unable to calculate the portion of the constraint attributable to NT schedules, the Transmission Provider may redispatch the federal hydro-electric projects as necessary to relieve the constraint for the remainder of the hour and, if the event occurs twenty minutes past the hour, for the next hour also. However, the Transmission Provider must make the determination described in section 5 as soon as possible, not to exceed 100 minutes after the need for redispatch arises, and adjust the redispatch instructions accordingly.

5. For Day-ahead and Hour-ahead redispatch:

   a. The Transmission Provider will use redispatch only to manage congestion on the FCRTS that would impact NT schedules. The Transmission Provider will redispatch the system only to the extent necessary to maintain the NT schedules.

   b. The Transmission Provider will not issue any redispatch instructions until it has curtailed all non-firm schedules across the constrained path.

   c. If the Transmission Provider determines that a constraint can be relieved by redispatching federal hydro-electric projects, the Transmission Provider will determine what portion of the constraint is caused by NT schedules and what portion is caused by PTP schedules. Then the Transmission Provider will issue a redispatch instruction in an amount that will relieve the NT portion of the constraint and will curtail the PTP schedules in an amount necessary to relieve the PTP portion of the constraint.

   d. If the Transmission Provider determines that the portion of the constraint caused by NT schedules cannot be relieved by only redispatching federal hydro-electric projects, the Transmission Provider will contact the PBL schedulers and inform the PBL schedulers of the amount of NT schedules associated with the constraint. The PBL schedulers will attempt to relieve the constraint by the least cost means, including, but not limited to, purchasing alternative transmission from a third party, purchasing replacement generation from a third-party and redispatching federal generation accordingly, or requesting third party generation to decrease and using federal generation to replace the third-party generation. In making these arrangements the PBL will act as a purchasing agent for the Transmission Provider.

6. The Transmission Provider will not request redispatch for any purpose under the Tariff other than that stated herein or otherwise required by the Tariff.

Attachment 3

Schedule AF-06
Advance Funding Rate

SECTION I. AVAILABILITY

This schedule supersedes Schedule AF-04 and is available to customers who execute an agreement that provides for BPA-TBL to collect capital and related costs through advance funding or other financial arrangement for specified BPA-owned Federal Columbia River Transmission System (FCRTS) facilities used for:

A. Interconnection or integration of resources and loads to the FCRTS;

B. Upgrades, replacements, or reinforcements of the FCRTS for transmission service; or

C. Other transmission service arrangements, as determined by BPA-TBL.

Service under this schedule is subject to BPA-TBL's General Rate Schedule Provisions (GRSPs).

SECTION II. RATE

The charge is:

A. The sum of the actual capital and related costs for specified FCRTS facilities, as provided in the agreement. Such actual capital and related costs include, but are not limited to, costs of design, materials, construction, overhead, spare parts, and all incidental costs necessary to provide service as identified in the agreement; or

B. An advance payment equal to the sum of the capital and related costs for specified FCRTS facilities, as provided in an agreement. A credit for some or all of the amount advanced will be applied against charges for transmission service, as provided in the agreement. The charges for transmission service shall be at the rate for the applicable transmission service.

SECTION III. PAYMENT

A. ADVANCE PAYMENT

Payment to BPA-TBL shall be specified in the agreement as either:

1. A lump sum advance payment;
2. Advance payments pursuant to a schedule of progress payments; or
3. Other payment arrangement, as determined by BPA-TBL.

Such advance payment or payments shall be based on an estimate of the capital and related costs for the specified FCRTS facilities as provided in the agreement.

B. ADJUSTMENT TO ADVANCE PAYMENT

For rates under II.A., BPA-TBL shall determine the actual capital and related costs of the specified FCRTS facilities as soon as practicable after the date of commercial operation, as determined by BPA-TBL. The customer will either receive a refund from BPA-TBL or be billed for additional payment for the difference between the advance payment and the actual capital and related costs.

Attachment 4

FAILURE TO COMPLY PENALTY CHARGE

If a party fails to comply with the BPA-TBL's curtailment, redispatch, or load shedding orders, the party will be assessed the Failure to Comply Penalty Charge.

Parties who are unable to comply with a curtailment, load shedding, or redispatch order due to a force majeure on their system will not be subject to this penalty provided that they immediately notify the BPA-TBL of the situation upon occurrence of the force majeure.

1. RATE

The rate shall be the highest of:

a. 100 mills per kilowatthour;

b. any costs incurred by the BPA-TBL in order to manage the reliability of the FCRTS due to the failure to comply;

c. an hourly market price index plus 10%.

The hourly market price index will be the larger of the California ISO Real-Time Hourly Average Energy Price or the Dow Jones Mid-Columbia Firm Index Price for the hour(s) when the failure to comply occurred.

2. BILLING FACTORS

The Billing Factor shall be the kilowatthours that were not curtailed or redispatched in any of the following situations:

a. Failure to shed load when directed to do so by BPA-TBL in accordance with the Load Shedding provisions of the Open Access Transmission Tariff or any other applicable agreement between the parties. This includes failure to shed load pursuant to such orders within the time period specified by the North American Electric Reliability Council (NERC), Western Electricity Coordinating Council (WECC), or Northwest Power Pool (NWPP) criteria.

b. Failure of a generator in the BPA Control Area or which directly interconnects to the FCRTS to change generation levels when directed to do so by the BPA-TBL. This includes failure to change generation levels pursuant to such orders within the time period specified by NERC, WECC, or NWPP criteria.

c. Failure to curtail or redispatch a reservation or schedule or failure to curtail or redispatch actual transmission use of the Contract or Service Agreement when directed to do so by the BPA-TBL in accordance with the curtailment or redispatch provisions of the Open Access Transmission Tariff or any other applicable agreement between the parties. This includes failure to curtail or redispatch pursuant to such scheduling protocols or orders within the time period specified by NERC, WECC, or NWPP criteria.

Attachment 5

Rate Schedule Language: Hourly Nonfirm Service [1]

The language in quotation marks will be included in the following rate schedules in the Initial Proposal: PTP; IS; IM; ACS Scheduling, System Control and Dispatch; ACS Reactive Supply and Voltage Control from Generation Sources.

I. Billing Factor

"The Billing Factor for the rate specified in section ___[2] for Hourly Non-Firm Service shall be the scheduled kilowatthours."

"Upon 60 day's notice by TBL, the Billing Factor for the rate specified in section ___[3] for Hourly Non-Firm Service shall become the Reserved Capacity."[4]

II. Interruption/Curtailment

"If Hourly Non-Firm PTP Transmission Service is Curtailed or Interrupted, the Transmission Customer will be charged for actual use during the hour, and not Reserved Capacity. If the Curtailment originates from conditions on another Transmission Provider's Transmission System, no adjustment will be made to the Reserved Capacity billing factor."

---

[1] The proposed changes to the billing determinants for Hourly Non-firm service would not affect customers' contractual rights to use secondary delivery and receipt points.

[2] In the PTP rate schedule, the section number will be II.B.2; in the IS rate schedule, the section number will be II.B.2; in the IM rate schedule, the section number will be II.B.2; in the ACS Scheduling, System Control and Dispatch, the section number will be 1.b.(2); and in the ACS Reactive Supply and Voltage Control from Generation Sources rate schedule, the section number will be 1.b.(2).

[3] The appropriate section number for this blank correlate with the section numbers as listed in FN 2 above.

[4] Notice will not be given until TBL determines that the necessary changes have been made to TBL's applicable Business Practices and systems to accommodate the Billing Factor becoming Reserved Capacity.

Attachment 6

I. Regulation and Frequency Response (RFR) Service

Parameters

Known values:

t = Average FY 2006 and 2007 transmission cost allocated to RFR = $2,128,000
bd = Average FY 2006 and 2007 RFR billing determinant = 43,598,520 MWh

Determined in next power rate case:

P = FY 2007 PBL Generation Input cost for RFR

RFR Rates

FY2006 Rate = 0.32 mills/kWh

FY2007 Rate (calculated prior to FY2007, following power rate case)

$$\frac{t + P}{bd} = \frac{\$2{,}128{,}000 + P}{43{,}598{,}520 \text{ MWh}}$$

II. Operating Reserves Services (Spinning and Supplemental)

Parameters

Known values:

t = Average FY 2006 and 2007 transmission cost allocated to OR = $379,000
bd = Average FY 2006 and 2007 OR billing determinant = 1,787,040 MWh
r = Amount of reserves to be acquired from PBL during 2007 = 204.5 MWyr

Determined in next power rate case:

P = FY 2007 PBL Generation Input unit cost for reserves ($/MWyr)

OR Rates

FY2006 Rate = 7.93 mills/kWh

FY2007 Rate (calculated prior to FY2007, following power rate case)

$$\frac{t + (P \times r)}{bd} = \frac{\$379{,}000 + (P \times 204.5 \text{ MWyr})}{1{,}787{,}040 \text{ MWh}}$$

SIGNATORIES TO THE
2006 TRANSMISSION RATE CASE
SETTLEMENT AGREEMENT

ALCOA, Inc.
Avista Corporation
Benton County Public Utility District
Bonneville Power Administration Transmission Business Line (TBL)
Bonneville Power Administration Power Business Line (PBL)
City of Cheney
Columbia Falls Aluminum Co, LLC
Cowlitz County Public Utility District No. 1
City of Ellensburg
Emerald People's Utility District
Franklin County Public Utility District #1
Grant County Public Utility District
Grays Harbor County Public Utility District
Idaho Energy Authority
Idaho Power Company
Kaiser Aluminum
Mason County Public Utility District #3
Northwest Independent Power Producers Coalition
Northwest Requirements Utilities

Signing for:
City of Ashland
Benton Rural Electric Association
Big Bend Electric Co-Operative, Inc.
City of Bonners Ferry
City of Burley
City of Cascade Locks
Central Lincoln People's Utility District
Columbia Basin Electric Cooperative
Columbia Power Cooperative
Columbia River People's Utility District
Columbia Rural Electric Association
East End Mutual Electric Co., LTD.
Ferry County Public Utility District #1
Flathead Electric Cooperative
City of Forest Grove
Glacier Electric Cooperative, Inc.
Harney Electric Cooperative
Hermiston Energy Services
Hood River Electric Cooperative
Idaho County Light & Power
Inland Power & Light
Klickitat County Public Utility District
Kootenai Electric Cooperative, Inc.
Lincoln Electric Cooperative, Inc.
Lower Valley Energy
McMinnville Water & Light
Midstate Electric Cooperative
Mission Valley Power
Missoula Electric Cooperative
Modern Electric Water Company
City of Monmouth

Nespelem Valley Cooperative
Northern Wasco County People's Utility District
Orcas Power & Light Cooperative
Oregon Trail Electric Cooperative
Ravalli County Electric Cooperative
City of Richland
City of Rupert
Salem Electric
Skamania County Public Utility District
Surprise Valley Electrification Corp.
Tanner Electric Cooperative
Tillamook People's Utility District
United Electric Cooperative
Vera Water & Power
Vigilante Electric Cooperative, Inc.
Wasco Electric Cooperative
Wells Rural Electric
Northwestern Energy
Ohop Mutual Light Company
PacifiCorp
Pend Oreille County Public Utility District No. 1
PNGC POWER
Signing for:
Pacific Northwest Generating Cooperative
Blachly-Lane Electric Cooperative
Central Electric Cooperative, Inc.
Clearwater Power Company
Consumers Power, Inc.
Coos-Curry Electric Cooperative, Inc.
Douglas Electric Cooperative
Fall River Rural Electric Cooperative, Inc.
Lane Electric Coop, Inc.
Lost River Electric Cooperative
Northern Lights, Inc.
Raft River Rural Electric Cooperative, Inc.
Salmon River Electric Cooperative, Inc.
Umatilla Electric Cooperative
Okanogan County Electric Cooperative, Inc.
West Oregon Electric Cooperative, Inc.
Portland General Electric
Port Townsend Paper Corporation
Powerex Corp.
Public Power Council
Puget Sound Energy, Inc.
Renewable Northwest Project
City of Rupert
City of Seattle
Springfield Utility Board
City of Sumas
Tacoma Power
Town of Steilacoom
Tractebel Energy Marketing Inc., agent for Chehalis Power Generating, L.P.
Wahkiakum County Public Utility District #1
Western Oregon Electric
Western Public Agencies Group

Signing for:
Alder Mutual Light Company
Benton Rural Electric Association
Clallam County Public Utility District #1
Clark County Public Utility District #1
Town of Eatonville
City of Ellensburg
Elmhurst Mutual Power and Light Company
Grays Harbor County Public Utility District #1
Kittitas County Public Utility District #1
Lakeview Light and Power Company
Lewis County Public Utility District #1
Mason County Public Utility District #1
Mason County Public Utility District #3
City of Milton
Ohop Mutual Light Company
Pacific County Public Utility District #2
Parkland Light and Water Company
Peninsula Light Company
City of Port Angeles
Snohomish County Public Utility District #1
Town of Steilacoom

Bonneville Power Administration
PO Box 3621 Portland, Oregon 97208-3621
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